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SUBJECT: Treasury Deputy Secretary Kimmitt meets with EU Commissioner Charlie McCreevy before the TEC.

¶1. (SBU) Summary: Treasury Deputy Secretary Kimmitt met with EU Commissioner Charlie McCreevy hours before the second meeting of the Transatlantic Economic Council (TEC) meeting on May 1th, 2008. They discussed transition processes, the TEC, and insurance issues. They agreed to work on the CommissionQs Solvency 2 proposals and the Deputy Secretary promised to provide the Commissioner with specific ideas on how to address U.S. concerns.

¶2. (SBU) Kimmitt and McCreevy had a warm and open meeting in McCreevyQs office. The Deputy Secretary was joined by the Treasury Attach to the European Union, Barbara C. Matthews, and Treasury Acting DAS, Eric Meyer. The Commissioner was joined by his chief of staff, Martin Power, and his deputy chief of staff, Natalie de Balsadua.

¶3. (SBU) Commissioner McCreevy opened the meeting by asking a number of questions concerning the mechanics of government transition in the U.S. following an election and change of administration. The Deputy Secretary described the U.S. transition process, then noted that the key interlocutors for the U.S. in the Financial Markets Regulatory Dialogue (FMRD) would remain in place.

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¶4. (SBU) Kimmitt turned the conversation to that dayQs TEC meeting, noting that he was pleased with the progress the TEC had made so far. He said the TEC had the prospect of becoming a forum of enduring value to the bilateral US-EU relationship at the strategic level, much as the FMRD adds value at the technical level. He noted the challenge was to link the work of the two groups without creating a zero sum dynamic. He asked for the CommissionerQs views on the topic.

¶5. (SBU) McCreevy agreed, emphasizing that Qwe donQt want the FMRD to be knocked about by the TEC" and that he was Qvery anxious to not have our work in the FMRD derailed by the TEC.Q He agreed the TEC needs and has momentum, but at present only the FMRD seemed to be delivering tangible results. Martin Power added that these pressures could be alleviated as the TEC agenda was populated by other issues.

¶6. (SBU) Kimmitt agreed, underscoring his belief that

the TEC was not and should not be a high-level FMRD. To ensure continuity of the TEC, he believed two components were needed: 1) Active engagement by legislators, business leaders, and consumer groups, and 2) clear work plans identifying short-term, medium-term and long-term goals. McCreevy agreed.

INSURANCE ISSUES

¶7. (SBU) Kimmitt then asked McCreevy for his views on the insurance issues on the TEC agenda. McCreevy began by expressing strong support for the TreasuryQs proposed Blueprint for Reform of the U.S. federal financial regulatory system, and Secretary PaulsonQs speech releasing the report. He singled out the BlueprintQs proposals regarding an optional federal charter as a particularly promising way to address looming insurance regulatory issues. He noted that the Solvency 2 directive should be finalized early in 2009, but that it would come into effect in 2011 or 2012. He noted that an equivalency determination would be required, just as it was required in the accounting area. However, unlike in accounting the Commissioner for Internal Markets will not make the insurance equivalency determination.

¶8. (SBU) McCreevy indicated that if the reinsurance collateral issue were not resolved by the time that Solvency 2 was implemented, then achieving an equivalency determination for the U.S. would be difficult. He expressed the opinion that Solvency 2 represented a good regulatory capital and oversight standard. He added that

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it was possible that the U.S. could address the collateralization issue and still not achieve an equivalency determination due to underlying structural issues in the supervisory system. He indicated that he continued to hear many complaints about the U.S. system in Europe, particularly in London. He understood the difficulty that federal authorities in the U.S. would have in addressing this issue due to the state-based approach to regulation. However, goodwill on the part of the state regulators was insufficient to address the problem and, in his opinion, the only solution would be an optional federal charter. He believed that a three-year window of opportunity exists to address the formidable political challenges associated with making this change.

¶9. (SBU) Kimmitt noted that the Treasury Department has had a longstanding interest in making progress on updating the insurance oversight structure in the United States. He indicated that progress was already being made. A hearing had been held on Capitol Hill and legislation had been introduced to provide the Treasury Department with an insurance oversight office that would have authority to engage in international discussions concerning insurance. So engagement exists in Washington, but not actual momentum yet. He noted that awareness is growing in Washington that the insurance oversight structure is out of line with global market trends and that this adversely impacts the competitiveness of U.S. markets.

¶10. (SBU) Kimmitt then expressed concern with the CommissionQs Solvency 2 proposals. In particular, he was concerned that adverse impact on U.S. companies doing business in Europe could reinforce a negative political backlash in the United States against federalization of insurance regulation. He expressed the opinion that the U.S. and the EU needed to intensify their discussions to look for adjustments over the next 6 to 9 months so that the Commission could meet its objective without undercutting the TreasuryQs efforts to obtain an optional federal charter in the insurance area.

¶11. (SBU) McCreevy noted that Qwe are well down the road on Solvency 2. We are trying to have it done by the end of this year in the European Parliament.Q He indicated that it would be important to finish the work on this project before the Parliament started campaigning in spring 2009 and before the next Commission was in transition. Martin Power observed that the U.S. insurance industry had established a transatlantic group to create a forum to feed into the TEC. He expressed hope that this forum might be helpful to the broader effort. McCreevy indicated that it would be helpful to have a list of significant outstanding issues, noting that he was not seeking convergence of regulatory standards with the U.S. but only mutual recognition.

¶12. (SBU) Kimmitt observed that one group had recommended a Qgrand bargainQ between reinsurance collateral (U.S. gives the EU a pass by eliminating the requirement) and Solvency 2 (EU gives the U.S. a pass with an equivalence determination). He asked whether the Commissioner liked the idea. McCreevy answered no.

¶13. (SBU) Kimmitt noted that state-based insurance regulation would not be considered equivalent to the Solvency 2 proposed structure. He offered to prepare a letter from Treasury to the Commissioner identifying issues and possible solutions. McCreevy said he would welcome the suggestions and agreed to work with Treasury to try to find a solution.

¶14. (SBU) Looking towards the afternoon TEC discussion of the issue, Kimmitt and McCreevy agreed to highlight their mutual efforts to work together to find constructive solutions. Both agreed that each side should be sensitive to avoid making it difficult for the other side to make progress.

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¶15. (U) Deputy Secretary Kimmitt has cleared this cable.

Murray